

ACCOUNTANCY

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PROFESSIONAL NOTES

The Society's Annual Meeting

The annual general meetings of the Society of Incorporated Accountants and of the Incorporated Accountants' Benevolent Fund will this year be held in the hall of the Auctioneers' and Estate Agents' Institute of the United Kingdom, 29, Lincoln's Inn Fields, London, W.C.2, by kind permission of the Council of that Institute. The Society's annual meeting will be at 2.30 p.m. on Wednesday, May 9. The President, Mr. Richard A. Wittey, will take the chair, and it is hoped that there will be a good attendance of members. Sir Thomas Keens, D.L., President of the Incorporated Accountants' Benevolent Fund, will preside at the annual meeting of subscribers and donors, which will follow immediately after the annual meeting of the Society.

On the following day the Council will meet representatives of the Branches and District Societies. These Conferences were held annually before the war, and the very successful resumption last year has led to the general hope that no further suspension will be necessary in future.

Income Tax Bill—Second Reading

The Income Tax Bill is discussed in an article on page 134. In the second reading debate, the Chancellor of the Exchequer stated that in spite of the length and complexity of the Bill—inevitable complexity because income tax law has to cover all

varieties of circumstances and conditions and is necessarily intricate in its character—the basic conceptions embodied in the policy are simple and straightforward. The Chancellor made it plain that the aim of the Bill was to benefit productive and creative industry only. An extension to include all trading premises would increase the cost very heavily, and render administration difficult. All businesses would benefit from the plant and machinery provisions. Forestry, not being husbandry, would not qualify for the agricultural buildings relief, but buildings analagous to industrial buildings would qualify for the allowance given for such buildings. While existing agricultural buildings would not qualify, the allowance given for new buildings and works would give farmers a reasonable measure of total relief. The Financial Secretary affirmed that the capital cost of bringing water to a farm or of laying on electricity would be included. He went on to a remark that shows a welcome optimism, viz. that the measure, designed to stimulate industry and the export trade, may produce a great deal more in revenue than it will cost the Exchequer.

The object of the Bill is to ensure that income tax is levied on the true profits of industry, the original capital cost of the industrial asset being completely written-off over its life. It will give a special stimulus to early modernisation of plant, in order to fit this country to take its proper place in the industrial life of the world after the war. The debate was satis-

factory from the Treasury viewpoint; we now await the committee stage, which may be well advanced by the time this note appears in print.

University Bursaries

The Ministry of Education has issued draft Regulations under Section 81 of the Education Act, 1944, empowering local education authorities to give assistance by means of scholarships and otherwise to enable pupils to take advantage without hardship to themselves or their parents of any educational facilities available to them. In addition to payment of fees, expenses and maintenance allowances in respect of children in schools, local education authorities have power to assist students attending universities and other places of further education. The Ministry's explanatory Circular 26 contains principles on which they are asked to base detailed schemes for approval. It is considered that suitability for awards should normally be judged on performance in the Higher School Certificate or a similar examination. Local authorities are asked to make more provision for awards tenable at technical, commercial and art colleges, and to consider aiding qualified pupils to undertake courses outside the normal scope of State scholarships. It is suggested that awards might range from a quarter of the tuition fees to full tuition fees with a maintenance allowance of £140 to £175 per annum for students resident at a university. The maximum award might be paid where the parent's income, after an allowance in respect of other children, did not exceed £600 per annum. Authorities are urged to make out-and-out grants adequate in amount, and to discontinue, so far as possible, the practice of offering loans. Future policy regarding State scholarships is under consideration. These proposals are of interest in view of the hopes expressed from time to time that more university graduates would be attracted to the accountancy profession.

Institute of Municipal Treasurers and Accountants

A Conference will be held in London on the occasion of the sixtieth annual general meeting of the Institute of Municipal Treasurers and Accountants. The Conference will take place on June 21 and 22, 1945, at Guildhall, which has been kindly lent for the purpose by the City of London Corporation.

The Right Hon. Sir John Anderson, P.C., M.P., Chancellor of the Exchequer, and the Right Hon. Lord Latham, F.L.A.A., J.P., have kindly promised to address the Conference. They were to have addressed the Conference arranged for June, 1944, which had to be cancelled.

Taxation of Industry

Some striking facts about the effect of taxation on the liquid position of industry were given in a recent address by Lord Davidson, President of the Engineering Industries Association. To illustrate his point, Lord Davidson quoted combined figures for 100 representative engineering firms, of whom the vast majority work partly on free issue materials. Of

profits totalling £9,895,000 for the last financial year, no less than £9,125,000 was absorbed by E.P.T., income tax and war damage contributions. The retainable profits of £775,000 were equivalent to no more than 3 per cent. on the combined turnover of £28 million. Liabilities at the date of the last balance sheets totalled £9,477,000 (of which taxation accounted for £4,501,000), against current assets of only £11,748,000. From these results, it is clear that many of these companies would not have been able to continue trading if they had had to pay up at once their full taxation liabilities. More than half of the firms estimate that their current resources (including E.P.T. credits) will be insufficient to meet transitional costs. The E.I.A. has submitted these figures to the Chancellor of the Exchequer as evidence "that an unfair system of taxation has gone far towards jeopardising the powers of the engineering industry to give full employment after the war, and to supply the home and export markets with essential products." Though the figures for these engineering firms no doubt represent an extreme case, it is evident that excess profits tax combined with rising prices must have led to a considerable depletion of the real capital of industry as a whole, and that even the best placed industrial firms possibly do not possess sufficient liquid assets to make good this capital depletion.

Account Books and War Damage

Account books are "documents owned for the purposes of a business," and are therefore excluded by Section 104 of the War Damage Act, 1943, from insurance against war damage. This was decided by Mr. Justice Humphreys in the King's Bench Division, on March 1. Mr. H. G. Hill, an insurance broker, made a claim against the Crown by way of petition of right in respect of certain account books containing records of his business transactions, which were destroyed when his offices were burnt out through enemy action. It was stated that before the war the books were insured against fire for £3,000, which was the amount now claimed as compensation. The Solicitor-General contended that "documents" had always been taken to include books of accounts. Mr. Justice Humphreys said that, while the construction of an Act of Parliament must always be a question of law, the Court should endeavour, in a case involving the right meaning to be given to a word in common use, to give a construction which would be agreeable to the ordinary educated business man. One underlying principle was that a document meant something which gave information and was evidence of something. No matter on what material it was written or printed, a document must be something capable of being evidence. It was understandable if the Board of Trade took the view that account books were merely personal records—evidence of the business—of no value to anybody else. It might be that the Board intentionally refused to insure such things as records of a business, and had done so by using the word "document," which, in his opinion, must include ordinary books of accounts. The petition was accordingly dismissed.

Solicitors' Accounts Rules

Copies are now available to professional accountants of the Law Society's booklet containing the text of the Solicitors' Accounts Rules, 1945, and Solicitors' Trust Accounts Rules, 1945, with an explanatory memorandum. We published some notes on the new Rules in our issues for September and October, 1944, and the October issue also contained an article by Mr. Roland Burrows, K.C. Every accountant who is asked to audit the accounts of a solicitor should be familiar with the new Rules. Copies of the booklet may be obtained (price 1s.) from the Secretary of the Society of Incorporated Accountants at Incorporated Accountants' Hall.

U.S. Foreign Trade Policy

In our last issue we noted with satisfaction the enlightened attitude towards world trade problems adopted at the Rye Conference by the American National Association of Manufacturers. Similarly realistic views were expressed in a recent address on "Some Considerations of Foreign Economic Policy" by Mr. Edward Riley, of the General Motors Corporation. Mr. Riley points out that in the United States the difference of view as to foreign economic policy is between those "who are willing to face the eventual import implications of our position as a creditor nation committed to underwriting a greatly increased volume of post-war exports of both goods and capital; and, on the other hand, those who are unwilling to face these implications." For a time after the war, American exports will necessarily be high, not only in the normal course of trade, but also as emergency measures for relief and rehabilitation. But, Mr. Riley holds, such exports will not for long be tolerated by the American people, unless they can see a reasonable prospect of receiving payment for them: "And such payment can be made only if we are willing to accept imports in the form of goods and services which our own people can consume and enjoy. Unless we do accept such imports, our exports will represent a giving-away of our own substance to the peoples of other lands—and the American people will not be long in recognising them as such." Whether or not tariffs are lowered to promote an increase in American imports, Mr. Riley points out, the simple fact remains that U.S. imports must be increased and its historic trade balances reversed unless the whole structure of world trade is to collapse. In Great Britain, he continues, the difference of opinion is between those who favour an expansive world economy, and who feel that this country can successfully compete on the basis of efficient, low cost quality production, and those who favour restriction and cartels. If the advocates of restriction had their way, the prospects for an expanding world economy would be seriously impaired; but Mr. Riley recognises that the chief argument of this school rests upon their well-founded doubts as to the willingness of the United States to accept the import surplus demanded by her creditor position. Hence, he concludes, it is not too much to say "that political and economic freedom in Britain and in the United States depend critically upon the British adopting an ex-

pansionist, free-enterprise economy, and upon the United States recognising that our creditor status demands an early reversal of our traditional trade balance position. If *either* nation fails to do what is so clearly indicated, the security and freedoms of *both* will surely be jeopardised."

Severn Barrage Scheme

A committee appointed by the Ministry of Fuel and Power has now reported that the Severn Barrage Scheme would, under certain conditions, be an economic means of generating electrical power. The barrage would take eight years to construct, at a total cost, including the transmission system and allowing for interest at 3 per cent. on the capital employed, of just over £47 million. This would give an annual charge for interest of £1,410,000, and total annual charges of £2,415,000 (including allowances for sinking fund and local rates). During the first fifteen years of operation, the annual output of electricity at reception points is estimated at 2,107 million kilowatt-hours per annum, giving a unit cost of just over a farthing (0.275d.). To produce this quantity of electricity at a coal-fired power station would require just under a million tons of coal a year; from which it follows that the barrage would be an economic alternative method of producing power if the price of coal during these fifteen years were to average not less than 49s. 1d. a ton. In August last, the actual price was no more than 42s. 2d., but it is pointed out that a continuing annual rise of only 5d. per ton would be sufficient to produce an average price of 49s. 1d. over the 15-year period.

From the point of view of the country as a whole, it is to be hoped that the price will in fact be stabilised at something like its present level, which already represents an increase of 100 per cent. or more over the pre-war level. A second qualification must also be borne in mind. Throughout their calculations, the committee have been allowing for a return on capital of 3 per cent. But although the Treasury will undoubtedly be able to raise loans at that price by dint of a cheap money policy, it is quite certain that for some time to come the true cost of capital will be considerably more than 3 per cent. Thus, the committee's conclusions only hold good when interest rates are no higher than 3 per cent. in a completely uncontrolled market, so that it is most unlikely that construction could be commenced on an economic basis until some years after the war ends.

War Damage Practice

The War Damage Commission has published a second edition of its "Practice Notes." The character and importance of "Practice Notes" were discussed in an article in our issue for June, 1942. Changes have been made as a result of experience, and in conformity with changes in the law embodied in the War Damage Act, 1943. The Commission has evidence that the work has served a useful purpose to those connected professionally or commercially with war damage work.

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CAPITAL AND PROGRESS

THE two new specialist institutions which are to provide post-war finance for industry are neither sinister financial parasites created by bankers for their own purposes, nor a ready-made solution of our economic problems of the future. They will discharge two limited and technical functions: first, to provide medium and long-term finance for industries which, for particular reasons of their own, find it inconvenient or impossible to meet their requirements for new capital from the banks or from the new issue market; secondly, to fill the so-called "Macmillan gap" by providing capital finance to small concerns whose needs—so it is claimed—are not appropriately covered by the banks or the new issue market. The first of these services will be provided by the Finance Corporation for Industry, which is to be armed with capital powers of £125 million provided by insurance and trust companies and the Bank of England; the second function will be discharged by the Industrial and Commercial Finance Corporation, which will dispose of up to £45 million of funds, subscribed by the clearing banks, according to the decisions of its eight directors and its advisory panel.

It is plainly sensible to have these facilities in readiness for the task of reconstruction, and important, at the same time, not to exaggerate the part that they are likely to play. The F.C.I. may bring powerful assistance to the rehabilitation of important and ailing sectors of British industry; cotton and coal are possible cases in point, where social policy may require new capital investment to be made, even if the market is unable or unwilling to provide it. On the other hand, the I.C.F.C.'s practical scope may be fairly circumscribed; the Macmillan "gap" has not prevented many well-run small businesses from obtaining adequate medium-term finance at reasonable rates from their bankers, whose practice in these matters is often less rigid than the strict banking canons which they profess. But at least the two new institutions will ensure that no eligible demand for capital from these special sectors of British industry shall go unsatisfied for want of financial machinery to provide it.

The two corporations will cover only the fringe of industry's new capital requirements after the war—

so much is clear from a comparison of their total resources and the most superficial calculation of the total demand. But if enthusiasm is unnecessary, why should criticism of the new projects be so intemperate and suspicious? The question leads directly to one of the more discouraging symptoms of contemporary politico-economic opinion. Private accumulation of capital, once a Victorian virtue, has become, at least to some political schools, a cardinal error, which can only be expiated by control and planning of investment for what is conceived as the social good. The very word "capital" is spoken with distaste, and apologetics are felt to be needed to explain away any dividend exceeding a modest nominal rate. In truth, this antithesis between the private and social consequences of new capital formation is falsely drawn. The periods in which new capital was freely adventured have also been periods of great economic advance and social betterment. Those who impede the process of new capital investment to-day run two major risks: they will prejudice the immense task of industrial rehabilitation in the immediate post-war years; and secondly, they may cause permanent harm to the secular objective of improving British industrial efficiency, on which the whole economic future of these islands depends.

At the moment, capital is short, like everything else, and this shortage in relation to demand will continue for some years after the war. But capital in this context does not mean mere finance. Industry as a whole is in a very liquid condition. The true shortage will be of physical means for new capital construction. Moreover, the resources of labour and materials which are needed for new capital investment will also be keenly sought for the satisfaction of current consumption. To strike a balance will be difficult enough, but it will be made all the more difficult if political pressure succeeds in persuading the community that capital investment is a "bad thing."

In the long term, the need is to link the financial and productive resources of the community, in order to obtain the optimum national income. The attractions of current consumption must be measured against the future advantages of easier production from new capital assets which take time to mature. That, in the simplest terms, is the problem of saving and investment. At present, there is no lack of savings, though there are some new factors—such as the more equal distribution of incomes and the effect of high taxation—which may impair the willingness or ability of the private individual to save on the same scale as in the past. But investment in new capital is already less enterprising than it should be in a healthy industrial state. Even before the war, British industry was not applying sufficient capital to maintain and improve its efficiency. If there is added to the powerful forces already seeking a policy of so-called "stability," an outburst of moral disapprobation of the accumulation and investment of capital, almost every element in the post-war conjuncture will be unfavourable to the task of setting British industry on a course of efficiency and prosperity. The new corporations will be able to give their limited assistance, but the major problem will still remain.

The Nominee Problem*

By E. WESTBY-NUNN, B.A., LL.B., Barrister-at-Law

One of the most troublesome of the problems that is being considered by the Cohen Committee on Company Law Amendment is created by the increasing practice of having shares and debentures registered in the names of nominees.

These nominees, as is pointed out in the instructive memorandum submitted by the Committee of London Clearing Bankers, are not a class by themselves. They fall into the general category of registered holders who are not beneficial owners. In the same class are all trustees and mortgagees who are registered as holders, and a good many private companies who hold shares on behalf of other persons. To all these cases section 101 of the Companies Act, 1929, applies. The registered holder of the shares in fact holds them in trust for the beneficial owners; but no notice of the trust may be entered in the register.

Nominee Companies

There exist a number of companies formed solely for the purpose of acting as nominees. These companies were originally formed by the banks. Before their formation it was the practice of a bank, which was giving credit on the security of shares, to require the debtor to transfer the shares to two officials of the bank. It was found that this practice caused inconvenience when one of the officials died or retired; and this inconvenience was overcome by having the shares transferred to a nominee company formed for the purpose.

In recent years, bank customers have made considerable use of the nominee companies for purposes in no way connected with advances by the banks. Where, for instance, a banker's customer is going abroad, he may transfer his holdings of shares to the nominee company in order to facilitate transfers during his absence, instead of employing the old-fashioned and dangerous remedy of giving someone a power of attorney. The extent to which this practice has grown is shown by figures given in the memorandum by the Committee of London Clearing Bankers. In the case of one of the clearing banks only, there were no less than 72,456 holdings at the date the memorandum was compiled.

It is generally recognised that the advantages of this practice are so considerable that any general prohibition would be deplored; but at the same time there is another side to the picture which is presented on page 99 of the Minutes of the Company Law Amendment Committee (question 2018).

There is first of all the point of view of public policy. There is no doubt that the increasing use of nominees makes it impossible for the members of a company to know who is in control of their company. And, in particular, there is no doubt that the practice

enables foreigners who hold shares to conceal their nationality.

Secondly, the practice enables directors to conceal from the members of the company the extent of their holdings, and to deal in the company's shares extensively without this being known.

The case is one of those exceedingly difficult ones in which the advantages of a practice have to be weighed against its disadvantages, and a remedy sought which will prevent abuse without unduly hampering legitimate activities.

The Brazilian Warrant Company Scheme

One of the most interesting pieces of evidence on the subject was given by Mr. Arthur Whitworth (Minutes page 74) who described the steps taken by the Brazilian Warrant Company to prevent abuses of the practice. This company has altered its articles in such a way that any nominee is now required to declare to the company the name of the beneficial owner of the shares on registration under penalty of forfeiting dividends and other benefits if this be not done: a separate register of beneficial interests being kept in order to avoid conflict with section 101.

Not a few of the witnesses who appeared before the Committee were doubtful of the value of such a clause in articles of association. They pointed out the difficulties many nominees might encounter in determining who were the beneficial owners of their shares. A nominee company may, for instance, hold for a foreign bank, which might or might not be the beneficial owner of the shares. The foreign bank in turn might hold for an individual, who might or might not be the beneficial owner.

Bearer Shares

In the memorandum submitted by the Association of Investment Trusts (Minutes page 208), there appears the declaration that the Association are "definitely and strongly opposed" to such general disclosure of beneficial interests for the following reasons:

1. In many cases the nominee cannot say who are the persons beneficially interested.
2. Any legislation requiring disclosure would have to apply to mortgagees of shares as well as ordinary nominees, and, if it did apply to mortgagees, the work involved would be enormous.
3. Any legislation would be abortive as long as bearer shares continued to exist.

This last point is of first importance, for it follows that, if it be thought desirable on the ground of public policy that members of a company shall know the true identity of their fellow shareholders, it must be made impossible for any company to issue bearer warrants. The retention of the power to issue such warrants would inevitably provide a gaping loophole through which the controlling interest of any company could pass if it desired to avoid any general legislation aimed at requiring disclosure of beneficial interests.

* The views expressed in this article are those of the contributor. The Society of Incorporated Accountants has submitted its views on this question to the Cohen Committee, as reported in our issues for July and August, 1944.

Register of Voting Control

Of the possible solutions to the problem the most elaborately worked out is that contained in the Board of Trade Memorandum printed on pages 351 and 352 of the Minutes. Their recommendations are that every company shall be required to keep, as an annex to the Register of Members, a "Register of Voting Control" in which shall be entered the names, addresses and occupations of members holding 5 per cent. or more of the voting power of the company, together with the number of shares they hold and the percentage of voting power attaching thereto, and the names, addresses and occupations of the beneficial owners of the shares. They suggest that some of the difficulties to which attention has been drawn can be overcome by provisos that:

(a) Where shares are held on behalf of persons registered outside the United Kingdom, and information as to the beneficial ownership is not obtainable, the holdings shall be described in the Register of Voting Control as "Foreign Holdings"; and

(b) Where any part of the issued capital of the company is represented by bearer warrants, the Register of Voting Control shall show the aggregate amount of stock or shares comprised in such warrants.

It shall be provided, moreover, that nothing in any of the above provisions shall be deemed to be "notice of a trust" within section 101 of the Companies Act, 1929.

Commenting on these proposals (Minutes page 348) the Committee for General Purposes of the London Stock Exchange consider that the intention of legislation on these lines could be easily defeated, and that it would throw a needless burden on some of the bank nominees. They suggest that the burden of making disclosure should be placed on the shoulders of the beneficial owners instead of the registered holders of the shares concerned, and that the identity of foreign holders be required to be disclosed.

Board of Trade Enquiry

An alternative remedy suggested by the Law Society (Minutes page 240) is that either members of the company or members of the public might be given the power of setting in motion a Board of Trade enquiry into the true membership of a particular company if and when the occasion arose. This remedy has the apparent approval of the London Clearing Banks (Minutes page 278), who make the additional suggestion that, if it be thought desirable to require fuller disclosure of the interests of directors and to prevent directors from having concealed dealings in their company's shares, this purpose might be achieved by legislation:

(a) Prohibiting directors from holding shares through nominees unless their interests are disclosed;

(b) Requiring a record of such holdings and of all changes therein to be made in the book of the minutes of board meetings;

(c) Requiring such information as to directors' holdings and dealings in directors' shares to be filed with the Registrar of Companies in a supplement to the annual return.

Views of the Professional Bodies

The Institute of Chartered Accountants (Minutes page 387) do not go as far as these other bodies. Their remedy is that a person presenting a transfer of shares into his own name be required to state whether he is a transferee in his own right or as a nominee or trustee for some other person; that this statement be noted in the register of members (with appropriate amendment of section 101); and that the company have the power to call for the name of the beneficial owner.

The Society of Incorporated Accountants and Auditors (Minutes page 502) take the view that, whilst in the case of private companies beneficial ownership ought to be disclosed, in the case of public companies any attempt to remedy the admitted evils of the present practice would cause undue dislocation of the affairs of these companies without giving corresponding advantages to the persons intended to benefit from the remedies. The Chartered Institute of Secretaries, in their somewhat Panglossian memorandum, do not appear to think that any change is really necessary. In this respect the C.I.S. is in a very marked minority, for nearly all the witnesses seem to have been of the opinion that some reform of the existing practice is desirable, in spite of the divergent views on the best way of achieving the desired reform.

Some of the members of the London Stock Exchange Committee (Minutes page 350), the Association of British Chambers of Commerce (Minutes page 446), and *The Economist* (Minutes page 474) pin their faith to the "Form D" procedure. Until recently under the Defence Regulations this form was required to be attached to transfers, and among the facts disclosed by the form was the "beneficial ownership" of the shares to be transferred.

Voting by Nominees

In the memorandum submitted by the London Clearing Banks (Minutes page 278) attention is called to one of the difficulties at present experienced by the nominee companies under the existing law. Where such a company holds shares in a certain company for several different customers, it sometimes happens that some of the beneficial owners wish the nominee to vote for a certain measure at a meeting of the company whilst others wish the nominee to vote against the measure. If the wishes of all the beneficial owners were to be carried out, the nominee would have to vote both for and against the measure, and it is generally considered that, under the existing law, this cannot be done. A registered holder of shares cannot split his holding and vote one way in respect of some of it, and the other way in respect of the balance. The writer of this article expresses the opinion that, whatever the Company Law Amendment Committee decide to recommend on the general subject of nominee holdings, they should advise legislation which will put an end to this curious situation.

Inventory Valuations

[CONTRIBUTED]

The interest displayed in the articles on the valuation, etc., of stock in trade in the November and February issues is such that it is of some importance that certain principles should be examined, quite apart from any question of the Inland Revenue attitude.

As a preliminary, it is well to keep in mind the following features:

(1) The purpose of the annual trading and profit and loss account is to show the result of the year's activities, and to form the connecting link between the balance sheets at the beginning and end of the year.

(2) The trading account should show the gross profit made on the goods sold during the year.

(3) As it is impracticable for a business to live from hand to mouth, there is always a residue of unsold goods on hand at the end of the accounting period, and also, in a manufacturing business, work in progress at that date. The purchases, etc., of the year must be adjusted for the opening and closing stocks in order to arrive at the "cost" of goods sold during the year.

(4) Out of (3) comes the necessity for valuing stock in trade, i.e., goods bought or made in one period and sold in another.

(5) It is an accepted and wise axiom that profit must not be taken to credit in anticipation of its realisation, i.e., until the goods are sold there can be no profit. (If, after sale, the profit fails to materialise through a bad debt, that is quite another matter.)

(6) It is equally accepted that a loss must be provided for as soon as it becomes known or its probability becomes apparent.

(7) Arising out of (5) and (6), it is evident that stock must not be valued above cost, as that would anticipate profit. It is equally evident that if the value of stock has gone down, there is a loss to be faced for which provision should be made.

(There is an exception to the first point in that it is a custom in certain trades, e.g., tea, coffee, and rubber estates, tin dredging and mining undertakings, to value the stocks at net prices subsequently realised. In these cases the accounts are designed to show the results of a crop or a year's production, rather than the profit on the actual sales made in the year, and the profit is known before the accounts are prepared.)

With the exception in parenthesis above, it is therefore the custom to value stock at the lower of cost or market prices.

The provision so made for anticipated loss is necessarily an estimate, though the margin for error should be kept as low as possible. Even where the goods have been sold before the accounts have been prepared, there is still a chance of error in the provision applicable to the year, as further falls in value may have taken place between the accounting date and the date of sale.

(8) There is a feature of valuation that has not been sufficiently emphasised, viz., the conflicting claims of the trading account and the balance sheet. This was discussed in the February article.

Bases of Valuation

The principal bases of valuation are the following:

(1) Actual cost—

(a) Where the items can be specifically identified, this is the actual amount paid for them. The average for a particular consignment of which they are part is a similar method.

(b) If, however, the items cannot be identified, they must be regarded (i) as either part of the latest purchases (i.e., first in, first out); or (ii) as part of the earliest purchases (last in, first out). The last in, first out ((b) (ii)) method results in a "base stock" valuation.

(c) The last method worth mentioning is to price them at the average cost of the year, i.e., proportionate cost of opening stock plus net purchases, or a weighted average thereof.

(It is relevant to note that the various orders for the regulation of prices provide for the costs of the provision of materials to be calculated on the basis of a weighted average of (a) stocks in hand and (b) materials which are the subject of contracts for purchases at fixed prices for delivery during the period for which prices are to be determined.)

(2) Replacement cost, i.e., the current cost of purchasing or making similar goods in similar quantities to the normal intake.

(3) Realisable cost. This may be—

(a) Selling price less costs still to be incurred to place the goods in a saleable condition.

(b) Selling price less such costs and estimated profit.

(c) Selling price less such costs and a proportion of the estimated profit.

(d) Selling price less trade discounts and allowances and selling and distributing charges.

(e) Selling price without adjustment.

The selling price must be for goods sold in the usual way. As stores and raw materials are not held for sale, their saleable value is as component parts of the finished article.

(4) The lower of actual cost and replacement cost.

(5) The lowest of actual cost, replacement cost and realisable cost.

The common phrase "cost or market value, whichever is the lower," which is the usual basis of pricing inventories, is therefore not a finite term, but one capable of more than one interpretation, and the terms of which are themselves subject to several interpretations.

Work in Progress.—Unfinished manufactured goods are commonly valued at works cost, though a prime

cost valuation is not unknown. Replacement cost is usually too difficult to estimate, as there are seldom market quotations for partly-finished products. Pending completion, work in progress has often only a value as scrap, which would not be a proper figure to adopt in a going concern.

One method of arriving at cost of work in progress is to take the estimated cost when finished and deduct expenses yet to be incurred, including allowance for waste.

Finished Manufactured Goods.—Cost here is usually taken as meaning "works cost," which is complicated not only by the raw material content, which may be taken on one of several of the bases already mentioned, but also by the method of allocating overheads, which is outside our present discussion.

Replacement value is often difficult to estimate, and involves more work than is usually justified by results.

Application of "Cost or Market Value, Whichever is Lower"

It is a common—perhaps the most common—method to apply the formula to each item or group of items in the inventory. The alternative is to value the whole stock at cost and the whole at market value, and take the lower of the two totals.

There is also a midway method, whereby each group of items is valued on the second method, so that some groups will be at cost, others at lower market value.

In the case of goods manufactured and work in progress, there seems to be little uniformity; some businesses write them down by any fall in value of the material, others estimate the value by the trend of prices, while yet others adhere to cost. Process stocks are best valued as a whole. De Paula favours the year's average cost, calculated by taking the value of each class of the inventory, e.g. raw materials and stores, at the commencement of the year, adding thereto the cost of the total of each class of purchases during the year and dividing by the total quantities involved. He points out that where purchase prices have fluctuated violently, any other method lends itself to manipulation, e.g. by deliberately drawing during the year from all the low-priced lots or high-priced lots.

If this basis proves impracticable, he favours the basis of the latest invoice prices.

For work in progress and finished goods he favours standard cost, based on the current cost of raw materials and direct labour, plus overheads based upon a normal volume of production (say 75 per cent. or 80 per cent. of full capacity). Current overhead rates he discards as the valuation of the inventory would be directly affected by the volume of production, which might carry forward idle capacity to the succeeding year. Idle capacity should be segregated in the books and not included in costs or inventory valuation. Fluctuations in overheads can be materially reduced by keeping fixed overheads out of them.

It can be accepted that damaged or obsolete goods and scrap are properly valued at their net realisable value. In the case of stores such as coal, held for use

in their crude form, there seems no reason for using other than cost price, unless there has been extravagant buying. Spare parts may be best taken at cost.

De Paula submits that on a falling market, raw materials should be written down so that as nearly as can be estimated no loss will be incurred in succeeding periods on the sale of the corresponding finished product.

Consistency

As accounts have to be drawn up on commercial principles, it is obviously imperative that the basis of valuation used by any one business shall be consistent, though it is difficult to say that large groups of businesses must alter their methods so that all are on the same basis, desirable though that might be for statistical purposes. Commenting on the article in our November issue, *The Economist* said: "Even if all valuation were on the lower of cost or market, there would still be a very strong case for insisting upon a consistent basis. Its adoption would make tax evasion difficult, which is presumably what the Inland Revenue require. It would mean that all those who could obtain the figure would have an indication of the change in the volume of stock. Of the two bases given as alternatives, *The Economist* has for some years favoured original cost. If there is proper stock control this is a figure which can always be determined, and it has the advantage that it shows the actual outlay. Further, as against either the mixed valuation or market price it has the advantage of including no element of profit—or loss. It will probably be asserted that this is the very reason why it is not the proper figure for inclusion in the accounts, and that may well be so. It should, however, be available to the Inland Revenue if they require it, and certainly to the shareholders. If, as is very probable, some other figure is required for the published accounts, or even as the basis of taxation, that can be given and the difference explained. The point is that measurement must be from some recognisable concept and the mixed basis is indeterminate."

The writer does not see how any method of pricing stock can show volume. To attempt to calculate volume from an inventory valuation at cost would mean having access to records showing age of stock, etc. The earlier part of this article also shows that cost may have different meanings to different people. The writer does agree that cost should be adopted in the first place (whatever the term is taken to mean) as is shown by the February article, which would meet *The Economist's* view.

Another writer in a well-known economic publication has stated that economists prefer the "last in, first out" valuation. That means, in effect, a base stock valuation that may be lower than either cost or market, and is likely to distort the annual income.

Fluctuations in Market Value

Stock written down to market value at one inventory date may still be on hand at a subsequent date. If it has gone up in value, though still below cost, at which price should it be included?

In general, the market value will be taken, as part of the reserve for loss has now proved unnecessary. Some businesses, however, retain the lower price,

but it is thought that it is not exactly defensible to regard the last inventory value as if it were cost.

Objections to "Cost or Market"

The basis has been attached as inconsistent, and the antithesis of sound accountancy. While it is true that prices do not move evenly, it is in general true that the prices of most goods found in a typical inventory move in the same direction. This means that in general the stock will move from cost to market and back again from period to period, so that no one year's accounts will show really true profits.

Where the turnover is quick and stocks relatively low, this may not matter so much, as stock has little effect on profits, but where the stock is turned over very slowly, the effect may be great.

Cost, despite the various interpretations of the term, in general involves less estimating, and is easier to determine than market value, i.e. market value pricing takes up time. Cost often includes certain estimates, e.g. carriage and handling; market value includes more. Where goods are held through two or more periods, and taken at market value in each, an unrealised profit in the second period as compared with the loss provided for in the earlier period, vitiates comparisons.

Nevertheless, it is considered that the basis will persist for the purpose of determining profits, in view of the conservatism envisaged in reserving for losses while not anticipating profits.

Valuation by Reference to Selling Price

This method might be peculiarly suitable for certain staple commodities where standard prices are fixed from time to time, although even here, cost will usually be available. Stock taken over with a business may have to be valued by reference to selling values, owing to neither cost nor replacement value being readily ascertainable. Selling and distributing charges should be deducted. As, however, it means that profit is included, it is not strictly logical.

Conclusions

No attempt has been made to indicate the most suitable bases for various classes of businesses; the purpose of the article is rather to emphasise some problems involved. It may, however, be desirable to lay down certain conclusions that strike the writer.

(1) In wholesale businesses, sale prices tend to move much more closely in relation to cost than in retail businesses, where there tends to be a greater lag. Replacement cost may therefore be more defensible for the wholesaler, i.e. the price the stock would cost in the current market plus expenditure to put it in its current condition. Cost is preferable in both cases, however, as their functions are selling, not production, and profits should be restricted to sales.

(2) If the trader has actually offered goods for sale at a price lower than cost, that price, less selling, etc., charges, must be regarded as the maximum market value. This may be evidenced by what has occurred between the balance sheet date and the date the accounts are actually prepared.

(3) In manufacturing, replacement costs may affect selling price directly and are important for the

purposes of management. Care must however, be taken not to anticipate profit.

(4) True conservatism seems to point to the valuation at the lowest of—

- (a) True cost of the goods in hand (first in, first out, unless the goods can be identified against invoices).
- (b) Replacement cost, including handling.
- (c) Selling price, less costs of selling and delivery.

This applies to purchased or manufactured goods. Work in progress has already been dealt with under its own heading.

(5) The distinction between the trading account and balance sheet values should be shown (see February article).

(6) It must never be forgotten that accounts should be prepared to show the proprietors the result of the trading. Taxation should not influence the preparation of the accounts. Therefore,

(7) Whatever merits or demerits there may be in any Revenue method, it should not affect the preparation of the accounts, but be dealt with in the tax computation, just as, for E.P.T., the notional profit on contracts in progress is included in the computation.

(8) The slower the turnover, the greater the emphasis that must be placed on the valuation of stock.

(9) Consistency is all-important.

(10) Accounts should assist the management; there must not be any attempt to vitiate the story that the accounts can tell, such as will result if emphasis is laid on the balance sheet angle. Painting a pretty picture is not accountancy; producing statements of fact, and interpreting them, is.

Finally, it is recognised that only the fringe of the problem has been touched upon in what has been said above. It is hoped that before much longer, abler pens will have taken the matter much further.

DOUBLE TAXATION

A recent meeting of the British National Committee of the International Chamber of Commerce received a report on events in the field of double taxation. It is understood that conversations between the United Kingdom and the United States Governments have reached the stage of drafting an agreement on double taxation of income and profits, while an agreement between the U.S.A. and France is now in force. Double death duties and succession duties are covered by an agreement between the U.S.A. and Canada, and negotiations on this matter are proceeding between the U.S.A. and the Union of South Africa. All these agreements deal with the degree of taxation imposed in the one country on the nationals of the other: they do not give relief from double taxation, which can only be sought by each national from his own government. The British National Committee is pressing for relief to be granted in the British Budget of 1945, and they are hopeful that the Inland Revenue will respond. A tax agreement with France is also urgently necessary to avoid the recurrence of pre-war embarrassments to British companies operating in France.

The Accountant and Post-War Reconstruction

Mr. Fred Woolley, J.P., Vice-President of the Society of Incorporated Accountants, addressed a meeting of the Incorporated Accountants' Society of Manchester and District, held at the Grand Hotel, Manchester, on February 23. His subject was "The Accountant and Post-War Reconstruction." Mr. Frank Harrop, President of the Manchester Society, occupied the chair.

Controls

Mr. Woolley said that measures which were appropriate and successful in war-time were not necessarily applicable in peace-time. A restrictive control imposed to secure a desirable result in one direction might lead to unforeseen harmful results in other directions. Unfortunately, such matters were not always viewed with unprejudiced reasoning—there was too often an undue intrusion of party political bias. Restrictive controls led to a sense of frustration, to the great detriment of courageous enterprise.

What is Capital?

Strange notions were entertained in some quarters about capital. Capital consisted in whatever anyone possessed of intrinsic value, and the millions of people who held it—much or little—represented the qualities of thrift, industry and enterprise which had helped to endow the British race with some of its finer attributes.

Taxation Reliefs

Industry would not be slow to appreciate the reliefs already announced to take effect after the war. But the most welcome aid would be a reduction in the standard rate of income tax.

Most concerns would probably wish excess profits tax to continue until the turn-round in trade had commenced, so that they could obtain repayments on deficiencies incurred then. A difficulty was that the dates on which businesses would cross the border line would not synchronise, and could not be foreseen. In the event of a reduction in the rate of the tax before its abolition, it might be suggested that refunds in respect of any deficiency should be made at the full rate borne in the earlier period.

An announcement of the conditions upon which post-war credits would be honoured was becoming urgent. It was suggested that as these credits were in direct relation to tax actually borne, there should be no attachment of differentiating conditions.

Public Spending as a Regulating Factor

For some years past he had been convinced that the timing of expenditure on public works, national and local, had been most unfortunate and misguided. The policy should have been the very reverse of that invariably followed in the past. When slump threatened, that was the time to speed up and extend the field of public works, thus minimising slump effects and putting money into beneficial circulation. On the approach of a boom, public works should be slowed down in relation to the rate of trade recovery.

Thus public expenditure on construction work should be timed to act as a steadying influence. It was good to observe that the Chancellor himself appreciated the significance of this and proposed to reverse the past short-sighted policy.

The same principle should be applied to capital expenditure for private or industrial purposes.

Private Enterprise v. Public Ownership

The greatest principle underlying our economic constitution was that of private enterprise, or economic freedom.

Private enterprise was characterised by flexibility, adaptability, the spirit of adventure, liberty to take risks, freedom of action in experiment and research, exercise of judgment, and promotion on merit. These were all essential ingredients of efficiency, progress and prosperity.

The opposite features of public ownership did not necessarily appear as obvious defects. They could exist side by side with apparent economy and efficiency. Efficiency could rarely be put to the test owing to the virtual elimination of competition and the application of rigid standardised methods.

The economic system of a country must follow the genius and traditions of its people, and the British genius expressed itself in independence of thought, choice of occupation or vocation, and personal interests.

Home Trade

Agriculture, still the largest industry in the country and the foundation of all others, must be assured of production and marketing conditions capable of supporting a wage structure comparable with that of other leading industries, with an adequate return on the services and capital of the farmer and market gardener.

Continued unsettlement and dissatisfaction in the mining industry must re-act unfavourably throughout our industrial organism. There appeared to be no reason to suppose that a solution would be found by national ownership. Every person of goodwill must hope for a settlement fair alike to miners and owners, and also fair to the country.

In building, full employment of labour and capital could be expected for probably two decades at least. The problem was to obtain labour and materials—especially labour. Possibly the Dominions could help by "lending" skilled operatives for a year or two. Some of the young men who had known Britain in war might like to get to know us under peace conditions.

If these leading home industries were to thrive in combination with the export trades, then the remainder would also thrive from the flow of spending power created.

Export Trade

A prosperous home trade, by raising production and lessening unit costs, would create one favourable condition towards securing export trade.

Many countries had expanded their manufacturing facilities and so increased the volume of world competition. Countries with comparatively low standards of life and production costs constituted a menace. On the other hand, there was the possibility of raising the standards of life for hundreds of millions of people, and thereby expanding the demand for commodities far beyond the increase in production facilities. Great Britain's reputation and goodwill should enable her to secure a full share in supplying these needs.

International trade negotiations should be left largely to representatives of industry, with the assistance of Government Departments where necessary and with access to all relevant information.

There were welcome indications of strengthening and modernising British consular staffs, and of improved training. Stress should be laid on promotion by merit, not by seniority. Some training and experience in industry and commerce should be an essential qualification.

British firms would find it more than ever necessary to send abroad representatives of the best type and in sufficient numbers to maintain close and intimate contact with foreign buyers.

It was a curious paradox that the British, while not lacking in boldness and enterprise, should in some ways reveal a distinctly conservative outlook. Manufacturers were perhaps too reluctant to scrap plant purely on grounds of obsolescence without consideration of remaining tenure of life. An improved type of machine might so cheapen production as to earn sufficient to cover its total cost by the time further substantial improvements were available—and in the meantime have made it possible to reduce the price of articles manufactured, and to increase the money turnover as well as the profit realised. It was of course desirable that an accountant should advise whether the degree of improvement was great enough to justify the change.

A British Council of Industry and Commerce

There must be planning at the national level. Why should not industry and commerce formulate its own policy and regulate its own affairs? There were at present a number of valuable and authoritative sectional organisations, and two or three with wider groups of membership—the Federation of British Industries, the Association of British Chambers of Commerce, and the National Chamber of Trade. But there was no organisation representative of industry, trade and commerce as a whole, including employers, employees and consumers, with the banks and the professions.

It was worth while to consider whether a statutory body, to be called The British Council of Industry and Commerce, would not be a valuable development. Such a body might be able to settle satisfactorily many vital matters which at present seemed almost insoluble. The Council would possess an authority within its sphere second only to that of Parliament. It should act in close liaison with Government Departments, and its decisions must of course be within the existing law or be submitted through the appropriate Ministers to Parliament.

The Controller's Reply

Mr. T. Harry Hewlett, J.P., M.P., said that as one of the much-abused controllers he was placed in a somewhat embarrassing position. He had been Controller of Dyestuffs since 1940. Speaking generally, he entirely agreed that controls should be abolished at the earliest possible moment, but no control should be abolished so long as there was a shortage of the commodity controlled. For instance, the control of foodstuffs was one of the finest things that had happened, and after five and half years the inhabitants of this country were healthier to-day than they were at the outbreak of war.

As Controller of Dyestuffs he was assisted by an Advisory Committee, composed of dye-makers nominated by the Association of British Chemical Manufacturers and of dye-consumers nominated by the Colour Users' Association, together with a professor of Manchester University. There was also a Joint Technical Committee, on whose advice the Control issued licences for importations of essential dyestuffs from abroad. On advice from the Government, the Control organised the disposal of dyes, so that they were sent where they were most urgently required in the national interest. Thus they had obtained the necessary dyes so that the troops in Burma should have their uniforms and equipment dyed jungle green instead of khaki.

Capital

He hoped that when the "Financial Control" ended the Government would see that investors in foreign countries were more definitely assured of the interest on their investments, and particularly of the safety of their capital. The losses of British investors in foreign securities had been phenomenal.

Trade

Mr. Hewlett agreed with Mr. Woolley's observations about agriculture. Both the United States and this country had made the grievous mistake of making cheap food one of their fundamental policies. It was better for the nation to pay 4d. per loaf for bread and to be fully employed and drawing good wages than to pay 2½d. per loaf and have millions of people unemployed.

They were fortunate that the Colonial Secretary, the Right Hon. Oliver Stanley, was determined that the living and financial conditions of natives in the Colonies should be improved. If their spending power were increased, the trade of this country would automatically improve.

Accountants in America

On his many visits to America he had been impressed by the fact that large organisations invariably had the auditor's or accountant's office on one side of the President's office, and the lawyer's office on the other side. Business in this country was becoming more and more dependent on the advice and the wise direction of accountants, and he felt that the larger businesses who had not already adopted the American practice would quickly do so.

TAXATION**The Income Tax Bill**

A detailed study of the Income Tax Bill shows that it is going to provide many headaches in trying to understand its terms. Seldom have the draftsmen produced a more complicated document; cross-reference abounds. We have already thrown out a plea for simplification of Acts, and we now repeat that plea. There is the possibility that complexity, especially if it should lead to attempts at avoidance in certain respects, may eventually mean further complicated legislation.

Date of Operation

The reliefs in the Bill are to operate on and after an appointed day. In these articles, we shall refer to this as "X-day"; we were tempted to call it "V-day," but that might be misunderstood. The date is to be fixed by Parliament some time in the future, and "X" is not an inappropriate symbol.

Method of Giving Relief

In general, the allowances provided in the Bill are to be given in the same way as wear and tear allowances, i.e. in the assessment. The allowance in any year of assessment is to be by reference to the circumstances of the basis accounting period, with appropriate adjustments to avoid duplication, etc., in the cases of new and discontinued businesses, etc.

Cost of Buildings

In the case of buildings constructed in the last 50 years, we are wondering how the cost of the structure as distinct from the land is to be found; in many cases the original records and vouchers will not be available. There is also the problem that all allowances already made for factory depreciation, etc., must be deducted. It is to be hoped that the problem of valuation will be tackled in the discussion of the Bill in the House.

It is also evident that a purchaser of an industrial building in future must insist on obtaining details of the figures he will need. But what if they are not available? Consideration ought to be given to allowing a purchaser of a factory an allowance based on the cost to him.

The position of a person who has acquired a building under devolution by law, e.g. under a will, does not seem to be covered, though we are hesitant to pretend that we follow the Bill in its entirety!

Machinery and Plant

Here second-hand acquisitions are covered, with safeguards to prevent collusion where there is control by one party over the other or by a third party.

The statement in the Explanatory Memorandum that the ordinary rates of wear and tear allowance are to be increased by one-quarter in place of the existing addition of one-fifth, is not the whole story. Reference to Clause 13 (2) shows that, the new allowance is to be taken into account in arriving at the written-down value, with the result that future annual allowances will be less than at present. As an example, a motor car may be taken, which cost £2,000:—

	A Existing Method		B New Method Ignoring initial allowance		C With initial allowance	
	20 per cent.		25 per cent.		25 per cent.	
Cost	£	£	£	£	£	£
Initial allowance	2000		2000		2000	400
Year 1	400 + 80 = 480		500		1600	400
	1600		1500		1200	
2	320 + 64 = 384		375		300	
	1280		1125		900	
3	256 + 51 = 307		281		225	
	1024		844		675	
4	205 + 41 = 246		211		169	
	819		633		506	
5	164 + 33 = 197		158		127	
	655 - 269		475		379	
6	131 + 26 = 157		119		95	
	524		356		284	
7	105 + 21 = 126		89		71	
	419		267		213	
8	84 + 17 = 101		67		53	
	335 - 333		200		160	
9	2 = 2		50		40	
	333 - 333	2000	150		120	

Had the car been sold after the fifth year for £400, the relative positions would be:

	A	B	C
Written down value	655 - 269		
	386	475	379
Proceeds	400	400	400
Balancing allowance		75	
Balancing charge	14*		21

*Under the existing law, the capital profit cannot be charged.

We plead for the abolition of the diminishing instalment method. Business has turned its preference to the straight-line method, and this is a suitable time to bring the Revenue into line.

Generally

Is it not time that the method of giving effect to wear and tear and all other allowances was brought into line? They ought all to be given in the computation of profits, by deduction from profits, and not by separate allowance in the assessment. The Revenue apparently recognised this in their recommendations which became law for N.D.C. and E.P.T., and it is an appropriate time to make the change for income tax.

Any necessary adjustment in respect of losses could be provided, though it is not inappropriate to suggest that the time limit be abolished, as recommended by the Chambers of Commerce.

Taxation Notes

Looking Forward

The President of the Association of British Chambers of Commerce has addressed a letter to the Chancellor of the Exchequer, submitting the Association's opinion and recommendations which they hope may be considered in the coming Budget and Finance Bill.

The letter says: "Amongst the factors which are necessary to assure the success of plans for the transition from war to peace and for a rebuilding of the general prosperity, reduction of taxation is one of the most potent. It would be a budgeting risk which would be justified by results." With this we are sure our readers will be in hearty agreement.

The letter draws attention to the desirability of the following:—

- (1) The removal of the six-year time-limit on the carry-forward of losses. The period is too short for the business cycle of certain businesses, and in many businesses war-time conditions or meagre E.P.T. standards have precluded the possibility of relief for pre-war losses.
- (2) Sole traders and partners should be freed from sur-tax on profits ploughed back into the business in the same way as are limited companies.
- (3) (a) Relief from double taxation, whether Empire or foreign;
(b) A series of tax conventions with all the principal customers of the U.K., so as to define the limits of tax jurisdiction and simplify the tax obligations of traders liable in both territories.
- (4) The initiation of legislation to provide for the allowance of expenses which, while not directly productive, will be incurred in the difficult period of transition from war production to civilian business, e.g.:
(a) Cost of moving and reinstalling plant, etc.; remaking tools, jigs, etc.
(b) Cost of removing blackout, A.R.P., etc., installations; dilapidations on "duration of

war" premises; repairs by proper materials where makeshift repairs were perforce made.

(c) Stock adjustments.

(5) Removal of the doubts regarding E.P.T. post-war credits and an indication of the date when they may become available.

(6) A review of substituted standards.

As always, the Association expresses the views of business men in general.

Income Tax Bill

The Association also points out deficiencies in the proposals for the amortisation of capital expenditure. Their plea is for:

- (a) The buildings annual allowance to be given to all business premises, and the 50 years' limitation deleted.
- (b) The initial allowance to be given in respect of all new expenditure on all business premises.
- (c) All expenditure on alterations and smaller replacements to be allowed against profits.
- (d) The inclusion of certain expenses in connection with land.
- (e) The right to adopt the straight line method for wear and tear.

Some of the suggestions are already met by the Bill, e.g. allowance on second-hand plant, and the inclusion of expenditure after April, 1944.

With the last recommendation, viz. that the balancing allowance for plant should be made as if the cost of assets acquired before 1939 were increased by 50 per cent., so as to provide a fund towards the higher cost of replacement, we are not really happy. It seems to us to confuse depreciation, which is the expired capital outlay, with a fund for replacement at higher cost, which is a different problem. We suggest, however, that there is a case for the proceeds of sale of plant being reduced by the inflation since 1939.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Income Tax—Annuities—Will and four codicils—Will and three codicils executed before September 3, 1939—Fourth codicil executed thereafter confirming will as altered by earlier codicils—Annuities provided in will and second codicil—Provision in second codicil for a composite annuity of £5,000 "clear of all death duties and income tax" including sur-tax—By fourth codicil dated September 14, 1940, said annuity of £5,000 to be payable in priority to all others—Another annuity to take priority of all others remaining—Provisions in fourth codicil charging these two annuities on specified property—Whether the provision of the £5,000 annuity by the second codicil was for a stated amount in view of varying tax rates—Whether varied subsequent to September 3, 1939—F.A. 1941, Section 25.

In re Earl of Berkeley (C.A., December 13, 1944 (1945) T.R. 23), was a case where the annuity of £5,000 provided by the Earl for his wife by the second codicil was inclusive of an annuity of £1,200 subject to death duties and income tax appointed to the wife by the testator under his will by virtue of powers under a

settlement made in 1888, and also inclusive of an annuity of £200 "free of all duties and income tax" given to her under his will as one of his executors. The Court was unanimous that the provision was for a "stated amount" and that the provisions in the fourth codicil did not amount to a variation. As a consequence, the restriction to 20/29ths of the "stated sum" applied to the whole annuity.

The Master of the Rolls gave the only judgment, although Lord Justice Morton in agreeing with the conclusions reached, but without expressly dissenting from anything the Master of the Rolls had said, intimated that the question whether variation had been made by the fourth codicil was the only matter upon which he had formed a conclusion of his own; and on that point he entirely agreed with the Master of the Rolls.

The case may go to the Lords; and this is the more likely because the Master of the Rolls in his judgment agreed with the dissenting judges in the Scottish case of *Holmpatrick v. Ainsworth* (Court of Session, 1942, T.R. (1943) 317, noted in our April, 1944, issue). The

judgment is very lengthy and this precludes adequate notice. At the same time, some of Lord Greene's *dicta* deserve mention. Referring to the previous decision in *In re Sebag-Montefiore*, noted in our November, 1944, issue, he reiterated the view that the variation referred to in Section 25 is a variation in the tax-free provision and not a variation of amount. Otherwise an increase or decrease of amount by a post-war codicil would deprive the estate of benefit under the Section. He held that the "stated amount" was not £5,000, but the gross sum which the covenantor had to provide. In other words, the annuity was not £5,000, but the "stated amount free of income tax." (It is to be hoped that the reader of the report will find the reasoning upon this point more lucid than the judge found counsel's argument upon it.) Dealing with the contention that in the circumstances of the case the inclusion of the £1,200 annuity above-mentioned affected the "stated amount" he declared:

"The section . . . is a simple and intelligible section directed to the case where you find in a document a provision for payment of a tax-free sum, and then all you have to do is to look at the date of that document; and the Act applies or does not apply, according to whether the document falls on one side or other of the line."

It is remarkable that a section, so commended, should be producing such a mass of litigation.

Income Tax—Bequest of "such a sum in every year as after deduction of income tax for the time being payable in respect thereof will leave a clear sum of £350"—Whether reliefs and allowances payable by annuitant to trustees—Whether trustees entitled to post-war credits—I.T. Act, 1918, General Rules, 19, 23, F.A. 1941, Sections 6, 7 and 25.

In Re Tatham (Ch.D., November 9, 1944 (1945) T.R.1), was a case in which Evershed, J., reviewed the various decisions upon the subject of tax-free annuities. In *In re Pettit* (1922, 2 Ch. 763), it had been held that where the gift was of annuities "free of duty and income tax," the annuitants had to refund to the trustees of the estate a proportion of the reliefs obtained corresponding with the proportions which the annuities bore to the annuitants' several incomes. In *In re Jones* (1933, Ch. 842) the formula was "such an annuity as after deducting therefrom income tax at the current rate for the time being would amount to the clear sum of" and, there, it was held that the annuitant was entitled not only to the "clear sum" but to the reliefs as well. Eve, J., holding that "at the current rate" meant "at the standard rate."

In most of the cases which have arisen since, the problem has been to determine whether under the wording of the deed or will providing for the annuity *Pettit* or *Jones* was applicable, although the Revenue's practice in interpreting the results of the former case was considered and condemned in *C.I.R. v. Cook* (Court of Session, March 22, 1944) noted in our issue of October, 1944. (The Revenue is taking this case to the House of Lords.) The distinctions drawn have been very fine; but the tendency has been to apply the *Pettit* rule, and to find the justification therefor in some words of qualification. But in *In re Eves* (1939, 1 Ch. 969), where the operative words were that the annuity was to be "free of income tax at current rate for time being deductible at source," Morton, J., held that the *Pettit* rule applied. It is, however, to be observed that the *Jones* case is not mentioned in the report and it is possible that attention was not drawn to it. In the present case, the provision would apparently have come within the *Jones* decision but for the words "in respect thereof," because it would be very difficult

to distinguish between "at the current rate" and "for the time being."

The Scottish decisions in the Court of Session show a certain degree of inconsistency; and this has been most marked in connection with the practical application of the *Pettit* rule. Thus, in *Richmond's Trustees v. Richmond* (1935, S.C. 585), where the annuitant had, apart from her annuity of £5,000 free of income tax and surtax, other income of about £600 per annum, it was held that she was entitled to retain the tax in respect of her personal allowances.

In the present case, after reviewing the earlier English cases, Evershed, J., held that the *Pettit* rule applied and that the estate of the testator was entitled to share in the annuitant's post-war credits in the same proportion.

It is very unsatisfactory that such a state of affairs should continue. The way out would seem to be by way of definition in a Finance Act like that contained in Section 25 of F.A., 1941, which applies to "any provision, *however worded*, for the payment . . . of a stated amount free of income tax." The word "stated," having itself proved a source of litigation, would, of course, be avoided.

PUBLICATIONS

Concise E.P.T. and N.D.C. By A. G. McBain, C.A. Second edition. (Sweet and Maxwell, Ltd., London. Price 12s. 6d. net.)

Excess Profits Tax Simplified. By H. A. R. J. Wilson, F.C.A., F.S.A.A. Fourth edition. (H. Foulks Lynch & Co., Ltd., London. Price 10s. 6d. net.)

The appearance of new editions of these books by two well-known writers is welcome. Both have contrived to present the essence of E.P.T. in remarkably small compass, and the time spent in reading either will be well repaid in stimulus to the jaded practitioner.

Perhaps—as the title would convey—Mr. Wilson's booklet, as he modestly describes it, is the more suitable as a first approach to the subject. Here, the treatment of each aspect is accompanied by a reference to prominent cases and followed by examples. This is not to say that the many shrewd comments on current interpretation will not give useful guidance in practice.

Mr. McBain separates his examples from the text and adds a chapter consisting entirely of summaries of leading cases; the same method is followed with N.D.C., and the result is a set of working notes which few will not find helpful.

BOOKS RECEIVED

The Management Audit. By T. G. Rose. Second edition. (Gee and Co. (Publishers), Ltd., London. Price 7s. 6d. net.)

Brewery Income Tax. By G. S. Hamilton, Chartered Accountant. (Taxation Publishing Co., Ltd., London. Price 30s. net.)

Factory Organization and Management. By N. F. T. Saunders, M.Sc. (Sir Isaac Pitman and Sons, Ltd., London. Price 10s. 6d. net.)

Local Authority Accounting by Punched Card Methods. By Bernard Hazel, A.I.M.T.A. (Gee and Co. (Publishers), Ltd., London. Price 25s. net.)

Income Tax for H.M. Forces and Demobilised Personnel. By Captain G. B. Burr. 1944-45 edition. (Jordan and Sons, Ltd., London. Price 2s. net.)

FINANCE**The Month in the City****Australian Conversion**

The past month has been one of relative inactivity on the Stock Exchange. At the present stage of the war the public are feeling particularly uncertain about the future trend of prices. Some believe that the conclusion of the war in the West will be followed by a period of falling prices owing to industrial and political uncertainties. Others argue that there will not even be a temporary setback before prices respond to the prospect of lower taxation and to the implications of a national income which has been permanently established above the pre-war level. Neither side appears to have had the courage of its convictions so far, with the result that the volume of business has been sub-normal. There has been some desultory buying of consumption goods equities, like breweries, which are considered safe for the transition period, but otherwise movements in the industrial market have been mainly the reflection of particular items of company news, usually favourable. British Government securities, on the other hand, have continued to improve in response to the Australian conversions. By converting at par into a new $3\frac{1}{2}$ per cent. 1965-9 stock, Australia will be doing better than New Zealand, whose $3\frac{1}{2}$ per cent. 1962-5 stock was issued at 99 $\frac{1}{2}$. Since the New Zealand operation, however, gilt-edged prices have risen, with the result that the New Zealand loan is standing at a substantial premium. In addition, Australia, unlike New Zealand, is repaying more than a third of the maturing loans in cash, which will stimulate reinvestment demand in the gilt-edged market. Under these circumstances it may be expected that the Australian conversion loan will establish a small premium, since the Commonwealth long-term credit is at present on a $3\frac{1}{2}$ per cent. basis. Even after repaying £34.3 million out of the maturing loans amounting to £94.3 million, Australia will be left with sterling balances totalling £120 million, quite a substantial sum for post-war re-stocking.

Railway Speeches

The annual statements of the railway chairmen have been marked by a number of references to the necessity of raising charges after the war. Costs, it is pointed out, have risen by 50 per cent. since the war, and a large part of this increase must be regarded as permanent. Railway charges, on the other hand, are only 15 per cent. higher. The effect of this has been obscured so far by abnormally high war-time traffics. But when these revert to normal, Sir Charles Hambro, of the Great Western Railway, has estimated that charges will have to be raised to 50 per cent. above pre-war in order to "cover the increased costs and yield the pre-war net revenue." It has been suggested in some quarters that such estimates may err on the side of pessimism, since the effect of a higher national income might be to keep traffics permanently higher than before the war. This, however, would presumably only hold good to the extent that the higher national income was the reflection of increased productivity or fuller employment. That part of the higher national income which was simply attributable to higher prices all round would hardly stimulate railway traffics unless the public decided to spend a larger proportion of its resources in travel. This, admittedly, might be the case during the immediate post-war period when other goods and services will still be in short supply, but there is no reason to doubt the substance of the railways' claim that much

higher charges will be necessary to preserve net revenue. The railways have the right to get their charges suitably adjusted before the control period comes to an end, probably two years after the war, but it seems likely that there will be considerable opposition from those to whom transport is an important element in costs. The alternatives to the railways reverting to the *status quo* after the war, but with higher charges, would be nationalisation or amalgamation under some form of public corporation. None of these possibilities can safely be excluded.

Australian Bank Legislation

The very radical banking legislation at present under consideration in Australia has had little effect on the prices of the shares quoted in London, since their yields of from 5 per cent. to $6\frac{1}{2}$ per cent. already reflect the political risk. The general effect of the proposed legislation will, it appears, be to perpetuate, with additions, the main features of war-time control. The Commonwealth Bank, regarded as the central institution, will retain its war-time powers of controlling the advances policy of the trading banks, and at the same time, by a retrograde step in central banking legislation, it will be encouraged to compete vigorously with the trading banks in their own sphere. The trading banks' additional deposits will have to be re-deposited with the Commonwealth Bank for a negligible return. This provision alone suggests that the trading banks' earnings—and dividends—will not be allowed to advance above their reduced war-time level. If these current dividends could be regarded as firm, Australian bank shares, with their high yields, could still be considered as satisfactory holdings. It is widely argued, however, that since there is no guarantee that the process of State interference, once begun, will not be extended, the prices of Australian bank shares still pay no more than due recognition to a continuing political risk.

South African Budget

Although the South African Budget contains no present change in mining taxation, it is not without hopeful portents for the future. Mr. Hofmeyr, the Union Finance Minister, promised that the special levy of 22 $\frac{1}{2}$ per cent. on working profits would be revised after the war. At the present time the obstacles to active mining development are more physical than financial. With labour and equipment in short supply little extension of mining operations would be possible in any event. For this reason it was not regarded as important to make any immediate reduction in mining taxation, but it is fairly clear that the whole position will be overhauled when the war is over. South African statesmen are fully alive to the necessity for a prosperous gold-mining industry, and envisage an extension of ultra-deep mining, together with substantial capital flotations. For the latter purpose the London market will retain its importance for South Africa, and it was doubtless with this in mind that Mr. Hofmeyr attempted to justify the $7\frac{1}{2}$ per cent. tax on non-resident dividends. His argument in support of this discriminatory impost was that it equalises tax payments because the South African shareholder pays super-tax to the Union Government, whereas the British shareholder does not. The latter, however, may be paying sur-tax to the British Government, and, it is impossible to find any genuine excuse for the discriminatory nature of the tax.

Points from Published Accounts

Courtaulds and Deferred Repairs

Announcing a reduction of £208,940 to £924,183 in net profit for 1944, the preliminary statement of Courtaulds insisted that this decline had come about because of the "particularly unfavourable difference" for 1944 between the profit as assessable to income tax and the profit ascertained by the company's usual method of accountancy. The explanation was that a "substantial provision" had been made for deferred repairs and renewals. The full accounts do not specifically show the amount of this provision; but the main creditors item is stated to include £900,301 as provision for these items. A year ago the corresponding provision was only £421,700, so, even ignoring the possibility that a withdrawal may have been made from this specific reserve during the year, it would seem that at least £478,601 has been applied to this purpose from 1944 revenue. This throws a very useful light on the board's apparent generosity in maintaining the ordinary dividend at 7½ per cent., a payment which entails reducing the carry-forward from £689,308 to £513,491. The Chairman's statement outlines an ambitious programme of post-war development, and this makes it pertinent to observe that the company holds as much as £43,051,755 in cash, tax reserve certificates and Government and other marketable securities. This is taking the investments at book cost of £37,004,241, which compares with a market value of £38,896,876. Apart from the appreciation of £1,892,635 in this item—of which no account is taken—there are general reserves of £19,124,094 and the profit and loss balance of £513,491 besides "special provisions and reserves" which amount to £1,752,345 and include a contingencies reserve of £639,603.

Absence of Consolidated Accounts

The accounts of British Aluminium had been awaited with special interest because a recent reduction in the price of aluminium has brought the metal well below even its pre-war level. The information now given provides but little assistance, however, in assessing the company's situation. Out of a balance sheet total of £16,547,180 interests in subsidiaries account for £6,360,228, which is a good deal more than the book value (£4,911,298) of the fixed assets under the company's direct control. Yet there is no consolidated balance-sheet or group profit statement. The same deficiencies have to be noted with Courage & Co. In this instance interests in subsidiaries at £2,831,467 compare with total assets of £8,719,967. A consolidated balance-sheet would have been of particular value here in elucidating the financial position of the group: as compared with current assets of £2,366,356 the parent company itself shows creditors and provisions amounting to £2,726,760, including bank indebtedness of £600,000, and this position is unusual for a brewery company.

A. W. Gamage

A year ago the trading profit of A. W. Gamage was described as including a transfer from book debts reserve, but the amount of this special credit was not disclosed. On this occasion the profit includes "profit on sale of investments," and again there is nothing in the profit and loss account to indicate the importance of the entry. In his speech, however, the Chairman states that the investment realisation profit amounts to approximately £3,000, and that the earlier transfer from book debts reserve involved £15,000. Eliminating

the special revenue in both years, a decline in trading profit from £96,265 to £76,585 becomes a reduction from £81,865 to £73,585. It would have been preferable if the exact details had been incorporated in the profit and loss account. There is a growing tendency to reserve for chairmen's statements particulars which would be better incorporated in the accounts.

Lewis's Investment Trust

Under the heading of fixed assets Lewis's Investment Trust brackets together freehold land and buildings of £1,211,560 and shares of £3,233,769 in subsidiaries. The accounts of the two chief subsidiaries, Lewis's, Ltd., and Lewis's Royal Polytechnic, are appended to those of the parent company. This arrangement is helpful, but perhaps not so helpful as a conventional consolidated balance-sheet would be. For one thing such a statement would emphasise, what does not at present emerge, that the trust's ordinary capital is a very highly geared security. At £1,233,750 it bears, even on the surface, only a moderate ratio to the trust's total share and loan capitalisation of £4,862,720. But the true "gearing" is much greater than these figures would imply, for out of total revenue of £487,669 in the past year the trust drew £323,125 from its holding of £117,500 of deferred capital in Lewis's—whose total share and debenture capitalisation is £5,565,864. A consolidated balance-sheet marshalling the interests of outsiders into a single item would display the position in much clearer perspective.

THE OFFICERS' ASSOCIATION

The annual meeting of the Council of the Officers' Association was held on January 31. Colonel Sir Frank Watney, K.C.V.O., C.B.E., T.D., stated that as a result of the closing of the War Office Employment Bureau, the scope of the Association's Bureau had been considerably extended. It would be necessary to enlarge the staff in order to be ready when officers came out of the Services in large numbers. But the machinery and organisation were available, as they were not at the end of the last war.

Ex-members of the A.T.S. and of the nursing services of officer status, and ex-officers of the Home Guard, were now eligible for help from the Officers' Association. Assistance was still being given to many T.B. cases, with help from the British Legion and the British Red Cross Society. A sum of £8,479 had been spent during the year to help with the education of 329 children, and educational help was likely to increase considerably in future. The Claims and Pensions Bureau had submitted 140 cases to Government Departments and appeal tribunals, of which 81 were successful. Fifty-six widows were receiving annuities from the Widows Trust. The Association had an excess of income over expenditure for the year of £54,824.

The meeting discussed the training of young officers who had received no business training before joining H.M. Forces. It was stated that Government help was available for the men, but not for young officers. Efforts would be made to bring on to the Council representatives of industry who might be able to help in this direction. It was also hoped that younger men from the Services might be appointed to the Council, so that in future the Officers' Association might be ruled by people who went through this war.

LAW

Legal Notes

COMPANY LAW

Receiver and manager appointed by debenture holders—Agent of company—No authority to bind debenture holder personally.

The terms of appointment and of the debenture determine whether a receiver is agent of the company or of the debenture holders. In *Central Electricity, Ltd. v. Berners* (1945, 1 All E.R. 160), Hallett, J., held on the facts of the case that, in giving an undertaking to pay a creditor, the receivers for a debenture holder acted as agents of the company, and did not warrant that they were agents of the debenture holder authorised to make him personally liable. A company owned premises let as furnished flats. In 1940 the company was in financial difficulties. The first defendant (one of the company's creditors and a debenture holder) exercised his powers under the debenture and appointed the second defendant receiver and manager. Later in 1940, the third defendant was appointed receiver and manager in place of the second defendant. The plaintiffs, who had supplied electricity for the premises, were owed a considerable sum by the company for charges in arrears; they therefore threatened to cut off the supply. The receivers gave a written undertaking to the plaintiffs, in their capacity as receivers, to pay all outstanding and future electricity charges. In January, 1942, a winding-up order was made against the company, which had been insolvent at all material times. The plaintiffs then commenced proceedings against the defendants. It was contended that the first defendant (the debenture holder) had authorised the second and third defendants to pledge his credit in order to obtain electricity, or that if, as receivers, they had no such authority, they were liable in damages for breach of warranty of authority. The first defendant relied on Clause 7 of the debenture, which stated that a receiver and manager should be the agent of the company; he also relied on Section 109 of the Law of Property Act, 1925, which provides that a receiver appointed under the powers conferred by the Act shall be deemed to be the agent of the mortgagor who is to be solely responsible for the receiver's acts and defaults unless the mortgage deed provides to the contrary. Hallett, J., held (1) that the provisions of the debenture did not exclude the statutory provisions, and that, on the evidence, the receivers were not authorised by the debenture holder to pledge his credit, (2) the terms of a receiver's appointment, as incorporated in the debenture, determined whether he was to be deemed an agent of the company or of the debenture holder. As by the provisions of the debenture the receivers were agents of the company, their undertaking to pay outstanding and future charges did not amount to a warranty of authority to bind the debenture holder personally.

Annual general meeting—Election of directors.

In *Batcheller & Sons, Ltd. v. Batcheller* (1945, W.M. 43), Romer, J., decided a question of importance to shareholders. An attempt by directors of a private company to secure their re-election despite an adverse vote of shareholders failed. At the annual general meeting, item 3 on the agenda provided for the re-election of A. and B. as directors; item 4 provided for the election of X. and Y. to fill the vacancies. The re-election of A. and B. was lost on a show of hands. B. thereupon demanded, in writing, a poll. It was decided this should be taken two months later, and that item 4 should be dealt with on that date. At the subsequent meeting,

the re-election of A. and B. was defeated by 10,979 votes to 10,860. The Chairman ignored the consideration of item 4, but declared A. and B. re-elected under Article 93 of the company's articles, which stated that if at any meeting at which an election of directors ought to take place, the places of retiring directors were not filled, they should, if willing to act, be deemed to have been re-elected. The members present, however, proceeded to the election of X. and Y. under item 4, in place of A. and B.

The company commenced an action against A. and B., claiming that X. and Y. were duly elected directors at the adjourned meeting. A. and B. counterclaimed that they were, and had since the adjourned meeting been, directors, and that X. and Y. were not directors. Romer, J., held that the notice to shareholders of the subsequent meeting was insufficient in form as a notice of an adjourned meeting, and that it was not open to the meeting to deal with anything except the poll in relation to A. and B. Therefore the purported appointment of X. and Y. was ineffective. A. and B. contended that in these circumstances, as their places had not been filled at a meeting at which an election of directors ought to have taken place, they must be deemed to have been re-elected by virtue of article 93. There was binding authority for their proposition that the operation of that article was not confined to cases of accidental omission to fill the places of retiring directors. But he thought that must be the main object of the article. Whatever its scope, it could only operate when the known circumstances of a particular case would sensibly and legitimately admit of its application. Here, however, A. and B. were contending that, though the majority of shareholders refused to re-elect them and avowedly wished to elect X. and Y. in their stead, yet the majority must be "deemed," under article 93, to have exercised their voting power in a directly contrary sense to that in which they in fact did exercise it, and to have re-elected A. and B. So extraordinary a conclusion was repugnant to common sense. In the view of Romer, J., clearer language than that in the article would be required before the court could be driven to accept so extraordinary a conclusion. Thus the claim of A. and B. to be directors by virtue of article 93 failed.

EXECUTORSHIP LAW AND TRUSTS

Will—Construction of "residuary legatee."

The general rule of construction is that the naming in a will of a "residuary legatee" only confers on that person a gift of residuary personalty, unless the context clearly extends it to cover realty. A similar difficulty frequently arises from a gift of "money," the meaning of which was considerably extended by the decision of the House of Lords in *Perrin v. Morgan* (1943, A.C. 399), although in that case Lord Simon, L.C., pointed out that "money" can be used in several different meanings and that much depended on the context. In *Re Bailey* (1945, W.N. 50) the testatrix gave the house in which she lived to a named devisee, and after leaving legacies of £10 each to seven named persons, concluded: "I leave M.J., daughter of C. R. J., as my residuary legatee and place on her the responsibility of distributing the souvenirs enumerated below to the persons stated." The personal estate only amounted to £279, but the testatrix owned seven freehold houses of the total value of £3,500. Romer, J., said some guidance could be found from earlier decisions, where it had been held that

as some real estate had been specifically devised, undisposed of real estate passed to persons named as "residuary legatees." In the present case there was a devise of a house in the will, which showed that the testatrix intended to deal with real as well as personal estate. This, together with the facts as to the respective values of the real and personal estate, showed there was sufficient context in the will to extend the meaning of "residuary legatee." Therefore, M. J. was entitled to the undisposed of real estate, as residuary beneficiary.

Will—Construction—What is a "hospital"?

The decision of Vaisey, J., in *Re Alfred Ford* (1945, 1 All E.R. 288) depended entirely on his construction of the word "hospital." In his will, the testator directed a division of his residuary estate among the voluntary hospitals of Birmingham and Solihull and two other named institutions. The court made an order directing an enquiry to identify the institutions entitled to participate. It was found that there were 16 such institutions. The Birmingham General Dispensary applied to be included. It had 11 branches in Birmingham, including dental and massage departments, a foot clinic and industrial casualty clinics. It was founded in 1793 and was supported entirely by voluntary contributions. In 1943, its branches treated 29,916 patients, and it maintained full-time salaried medical and other trained staffs; it had consultants in almost every department of medicine and surgery. But was it a "hospital"? Under the Voluntary Hospitals (Paying Patients) Act, 1936, a voluntary hospital is defined as "an institution which provides medical or surgical treatment for in-patients." Vaisey, J., said that in the ordinary sense "hospital" signified a place where in-patients were

received; in ordinary parlance it was regarded as something different from a dispensary. The Dispensary's casualty clinics had been set up to treat minor industrial ailments and injuries previously catered for only by hospitals. Although he could imagine no more beneficent institution than the Dispensary, yet it was not, in the strict sense, a hospital, and was therefore not entitled to a share of the residuary estate.

MISCELLANEOUS

District auditor—Local Government Act, 1933, Section 225 (1) (2)—No power to subpoena witness to attend.

By virtue of Section 225 of the Local Government Act, 1933, a district auditor can require the production before him of all books and documents necessary for the purpose of the audit. The penalty for non-compliance is a fine not exceeding £2. In *R. v. Hurle-Hobbs* (1945, 1 All E.R., 273) a district auditor of the London district requested the applicant to attend before him at the audit of the L.C.C. accounts and to produce certain documents relating to the trading accounts and profit and loss accounts of a firm for which the applicant acted as accountant. The applicant failed to comply and was duly prosecuted and fined £2. The district auditor served the applicant with a further notice to attend, which was also ignored. Thereupon the district auditor applied to the Crown Office for a *subpoena* to compel the applicant to attend. The Master granted it. On a motion to set it aside, it was contended that, the legislation having provided a special sanction under the Local Government Act, Section 225 (2), the powers exercisable by the King's Bench Division, were thereby excluded. The Divisional Court upheld that contention.

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the war-time enactments and Orders which concern the accountant. The fifty-sixth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ORDERS

FINANCE

No. 13 (1945). *Regulation of Payments (Italy and Vatican City) Order, 1945.*

It is permissible to transfer sterling from the account of a resident in Italy or the Vatican City to the account of another person resident in either territory.

(See ACCOUNTANCY, January, 1945, page 81.)

TRADING WITH THE ENEMY

No. 43 (1945). *Trading with the Enemy (Custodian) Order, 1945.*

All rights of transfer of securities belonging to or controlled by persons resident or trading in areas under enemy sovereignty are vested in the Custodian of Enemy Property. The intention is to secure that these securities shall remain under the control of the Custodian if their owners take up residence in a neutral country.

No. 91 (1945). *Trading with the Enemy (Authorisation) Order, 1945.*

No. 92 (1945). *Trading with the Enemy (Transfer of Negotiable Instruments, etc.) Order, 1945.*

No. 93 (1945). *Trading with the Enemy (Custodian) (Amendment) Order, 1945.*

These Orders remove restrictions on dealings with persons in Belgium.

No. 154 (1945). *Trading with the Enemy (Specified Persons) (Amendment) (No. 3) Order, 1945.*

Further amendments are made in the list of persons in neutral countries who are specified as enemies.

(See ACCOUNTANCY, March, 1945, page 120.)

WAR RISKS INSURANCE

No. 198 (1945). *War Risks (Commodity Insurance) (Extension of Insurance and Premium) Order, 1945.*

Commodity insurance policies expiring on December 2, 1944, or March 2, 1945, are extended without further premium to June 2, 1945. The premium for new policies is to be at the rate of 2s. 6d. per cent. for three months.

(See ACCOUNTANCY, March, 1945, page 120.)

WAR DAMAGE ACT, 1943 (PART 2)

Extension of Insurance Policies under the Business Scheme Without Payment of Premium

The Board of Trade announce that all policies under the Business Scheme, which are in force on March 31, 1945, will be extended until June 30, 1945, without further payment of premium or further action on the part of policy holders.

For new or additional insurance under the Scheme the rate of premium for the three months, April 1 to June 30, 1945, will be 1s. 8d. per cent., with a minimum premium of 5s.

Society of Incorporated Accountants

THE SOCIETY'S EXAMINATIONS

Candidates are again reminded that Tuesday, May 22, is the last date on which applications for the August examinations of the Society can be received. The examinations will be held on August 1, 2 and 3, 1945, at Taunton School, Somerset (by kind permission of the Governors and Headmaster) and at Manchester, Leeds, Glasgow, Dublin, and Belfast.

COUNCIL MEETING

THURSDAY, MARCH 22, 1945

Present: Mr. Richard A. Witty (President), in the chair, Mr. Fred. Woolley (Vice-President), Mr. F. J. Alban, Mr. A. Stuart Allen, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubbs, Mr. W. Allison Davies, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. Walter Holman, Sir Thomas Keens, Mr. James Paterson, Mr. Fred A. Prior, Mr. Joseph Stephenson, Mr. Percy Toothill, Mr. Joseph Turner, Mr. A. A. Garrett (Secretary), and Brigadier O. H. Tidbury (Assistant Secretary).

NEW MEMBERS OF THE COUNCIL

The following members were appointed to fill two occasional vacancies on the Council in accordance with Article 48:—

Richard Ernest Yeasley, C.B.E., *Fellow* (Messrs. Hill, Vellacott & Co.), Finsbury Circus House, Blomfield Street, London, E.C.2.

Arthur Benjamin Griffiths, *Fellow*, City Treasurer, Sheffield.

A resolution for their election by the members of the Society will be submitted to the next annual general meeting.

SILVER MEDALS

Silver medals were awarded in respect of the examinations in 1944 to Miss Mary Day, Articled Clerk to Lt.-Col. L. Dudbridge, M.C., Incorporated Accountant, Stroud, Glos., and to John Desmond Marsden Ellis, Articled Clerk to Mr. F. W. T. Mills, Incorporated Accountant, Wakefield.

BRANCHES AND DISTRICT SOCIETIES

It was decided to hold a Conference of representatives of Branches and District Societies with members of the Council on May 10, 1945—the day following the annual general meeting of the Society.

RESIGNATIONS

The following resignations of membership were received with regret from December 31, 1944:—

NEWMAN, JOHN WILLIAM (*Associate*), Buckhurst Hill, Essex.

SEED, HERBERT EDWARD (*Associate*), London.

DEATHS

The Secretary reported the death of each of the following members:—

BUTTERWORTH, ERNEST (*Associate*), Huddersfield (*on active service*).

MACKEURTAN, DOUGLAS (*Fellow*), Durban, South Africa.

NELSON, WILLIAM EDWARD (*Fellow*), Liverpool.

OWERS, FRANK HOWARD (*Fellow*), Chelmsford.

RAINBIRD, WILLIAM ALFRED (*Fellow*), London.

RUTTER, CLEMENT HENRY EDWARD (*Associate*), London.

STYLER, HAROLD MAXWELL (*Associate*), Manchester.

SPECIAL COUNCIL MEETING

REPORT FROM THE DISCIPLINARY COMMITTEE

A Special Meeting of the Council was held on March 22, 1945, when there were present Mr. Richard A. Witty, president, in the chair; Mr. Fred Woolley, vice-president; Mr. R. Wilson Bartlett, chairman of the Disciplinary Committee, and other members of the Council; Mr. A. A. Garrett, Secretary, and Brigadier Tidbury, assistant secretary.

The Council received a report from the Disciplinary Committee that Harry Wells, Associate, had at the Magistrate's Court, Bradford, been convicted in relation to Purchase Tax returns and in relation to the supply of goods in excess of the amounts authorised by a company of which he was a director.

After consideration of the circumstances, the Council resolved that Harry Wells be and is hereby excluded from the Society in accordance with Articles 33, 34 and 35.

SCOTTISH BRANCH

Annual Meeting

The sixty-fifth annual meeting of the Scottish Institute of Accountants (the Scottish Branch of the Society) was held in Glasgow, on March 15. Mr. Robert T. Dunlop, F.S.A.A., President of the Branch, presided over a large attendance.

In moving the adoption of the Report and Accounts, the Chairman referred to the loss the Branch had sustained by the deaths of several members, and particularly referred to Mr. William L. Pattullo, Dundee, who had been a member and regular attender of the Scottish Council for many years.

War conditions, and the direction of young candidates to work of national importance, had been reflected in the small number of candidates who had been able to present themselves at the examinations at the Glasgow centre during the year.

He understood the conversations between the bodies of accountants regarding co-ordination of the profession still continued. It was to be hoped that they would soon arrive at a definite scheme.

Mr. D. R. Matheson, LL.B., in seconding, referred to the good work done by the Scottish Deferment Committee, which he expected would soon be able to conclude its labours. The Report was adopted.

The retiring members of Council were re-elected. Mr. James A. Mowat, F.S.A.A., and Mr. John Aitchison, F.S.A.A., Glasgow, were appointed Honorary Auditors. Mr. Robert T. Dunlop and Mr. James Paterson were re-elected representatives on the Council of the Society.

A vote of thanks was cordially given to the Chairman for presiding.

Annual Report

The Council have pleasure in presenting the sixty-fifth Annual Report of the Scottish Institute of Accountants, the Scottish Branch of the Society.

SCOTTISH COUNCIL

The Council announce with regret the death of their colleague, Mr. William Langlands Pattullo, F.S.A.A., Dundee, who became a member of the Scottish Council in 1904 and was one of the most regular attenders at the meetings of the Council and Branch. They have also to report the deaths of Mr. A. G. G. Barclay, F.S.A.A., Town Chamberlain, Coatbridge, Mr. George William Fortune, F.S.A.A., Edinburgh, and Mr. William Pressley, A.S.A.A., Fraserburgh. All these members took an active interest in the work of the Society in Scotland, and their deaths are a distinct loss to the Scottish Branch.

MEMBERSHIP

The membership of the Scottish Branch remains practically the same. The loss of some members transferred to work of national importance furth of Scotland has been made up by the transfer of other members to similar work in Scotland. The Secretary keeps in touch as far as possible with all new members and candidates, and his assistance and advice is available at all times.

EXAMINATIONS

War and national service conditions were again reflected in the small number of candidates at the examinations of the Society in Scotland. The number of candidates exempted from the Preliminary Examination on satisfactory educational Certificates showed an increase over the previous year, and two cases of prisoners of war were dealt with.

SCOTTISH ADVISORY COMMITTEE

This Committee, on which the Scottish Branch is represented by Mr. Robert T. Dunlop and Mr. D. R. Matheson, LL.B., held several meetings during the year, at which applications for deferment were dealt with. Members of the Branch interested in the decisions were kept informed.

THE FUTURE OF THE ACCOUNTANCY PROFESSION

Discussions for the co-ordination of the profession continue between the bodies interested. If the profession as a whole is to take its proper position amongst the learned professions a minimum standard of education, training and examination must be adopted and enforced in view of the greatly increased work and responsibility now devolving upon practising accountants. In this connection it is permissible to remind members that one of the objects for which the Scottish Institute of Accountants was formed sixty-six years ago was the co-ordination and registration of Scottish accountancy.

The importance of the position of qualified accountants in industry and commerce has been receiving the attention of the Council of the Society.

GLASGOW CHAMBER OF COMMERCE

The Scottish Branch continues to be represented in the membership of the Glasgow Chamber of Commerce by the President, Mr. Robert T. Dunlop, F.S.A.A., and Mr. John A. Gough, F.S.A.A.

BENEVOLENT FUND

Several cases of hardship through death or severe illness involving unemployment unfortunately fell to be reported by the Secretary to the Trustees of the Benevolent Fund, who dealt with the applications in a sympathetic and generous manner. The Benevolent Fund merits the fullest support of the Scottish members.

ASSISTANT SECRETARY

In view of post-war activities, and as a measure of relief to the personal work of the Secretary, the Council appointed Mr. James Hawthorne Paterson, F.S.A.A., to be Assistant Secretary.

Council Meetings

A meeting of the Council of the Scottish Branch was held in Glasgow on March 15. Mr. Robt. T. Dunlop presided. The Secretary, Mr. James Paterson, submitted reports on various matters connected with the work of the Society in Scotland.

At a meeting held after the annual meeting, Mr. Robt. T. Dunlop was re-elected President, and Mr. D. R. Matheson, LL.B., Mr. Walter MacGregor, J.P., both of Edinburgh, and Mr. P. G. T. Ritchie, of Glasgow, were re-elected Vice-Presidents of the Branch.

PERSONAL NOTES

Mr. John Ainsworth, F.S.A.A., Treasurer and Chamberlain of the City of Plymouth, has been appointed City Treasurer of Liverpool, in succession to Mr. W. H. Legh-Smith, F.S.A.A., who has retired after a long period of service in that office.

Following the regretted death of Mr. Douglas Mackeurtan, the practice of Messrs. George Mackeurtan, Son & Croser, Incorporated Accountants, will be carried on by the surviving partners, Mr. Alan Butcher, F.S.A.A., C.A. (S.A.), and Mr. Roger Laughton, F.S.A.A., C.A. (S.A.). Mr. Alan Butcher has been serving with the South African Forces and will rejoin the firm after demobilisation. Mr. Roger Laughton has been the acting Hon. Secretary of the Society's South African (Eastern) Committee, Natal, during Mr. Alan Butcher's absence.

Mr. Harold Graham, Borough Treasurer of Tynemouth, has been appointed Treasurer and Comptroller to the Metropolitan Water Board.

Mr. Duncan R. Matheson, LL.B., F.S.A.A., has been co-opted a member of the Edinburgh Town Council.

Mr. James Hawthorne Paterson, F.S.A.A., Greenock, has been elected a member of Committee of the Greenock Stock Exchange.

It is officially announced that a treasure sale, held in Stoke-on-Trent in February last and opened by Her Royal Highness Princess Mary, in aid of the Duke of Gloucester's Red Cross and St. John Fund, realised the large sum of £13,495. Sir Francis Joseph, Bart, K.B.E., is the President of the North Staffordshire Appeal Committee, by whom the sale was organised, and Mr. Andrew Brodie, F.S.A.A., is the Hon. Organiser.

Mr. Joseph G. Dowling, Incorporated Accountant, has been appointed Secretary to the County Council of Waterford, Eire.

REMOVALS

Mr. Jack Goodman, Incorporated Accountant, is now practising at 46, Castle Street, Liverpool.

Messrs. L. C. Savage & Co., Incorporated Accountants, have removed to 25/26, Weston Chambers, Weston Road, Southend-on-Sea.

Messrs. Myring & Bradbury, Incorporated Accountants, announce a change of address to 10, Beauchamp Place, London, S.W.3.

Mr. H. W. Pople, Incorporated Accountant, announces a change of address to 27, Dale Street, Liverpool.

Mr. W. Campbell Quine, Incorporated Accountant, advises that he is now practising at 31, North British Buildings, Commissioner Street, Johannesburg.

OBITUARY

WILLIAM EDWARD NELSON

It is with much regret that we record the death on February 23 last of Mr. William Edward Nelson, who was one of the oldest members of the accountancy profession in Liverpool. He was the senior partner of Messrs. W. E. Nelson and Co., Incorporated Accountants, for nearly sixty years, and had been a member of the Society for fifty-five years; during part of that period he was the Hon. Treasurer of the Liverpool District Society. Outside his professional activities, he gave much time and work to the Methodist Church in West Lancashire and held the offices of District Treasurer for overseas work and of Treasurer of Trinity Hall School, Southport, for the daughters of Methodist ministers.

Mr. Nelson was much devoted to his home life and those who had been his guests valued the warmth of his welcome and the sincerity of his quiet disposition. He enjoyed a wide circle of friends, many of whom attended the funeral at Trinity Methodist Church, Southport. Among them was Mr. Alexander Hannah, who represented the Council of the Society.

The practice of Messrs. W. E. Nelson & Co., Liverpool, will be continued by his elder son and surviving partner, Mr. Bertram Nelson.

DOUGLAS MACKEURTAN

We much regret the passing of a well-known figure in the accountancy profession in South Africa, Mr. Douglas Mackeurtan, who died recently after a short illness.

He was head of the firm of George Mackeurtan, Son and Croser, Incorporated Accountants, Durban, which was established by his father, the late Mr. George Mackeurtan, in the early days of the profession in South Africa.

Mr. Douglas Mackeurtan was articled in London to the late Sir James Martin (then Mr. Martin), of Messrs. Martin, Farlow & Co., and was awarded the Society's Gold Medal in 1912. After qualifying as an Incorporated Accountant, he returned to Durban and joined his father's firm. But it was not long before his professional career was interrupted by the 1914-18 war, when he joined the South African Pay Corps, being promoted to Captain and receiving a mention in despatches. He returned to his firm on the conclusion of hostilities.

Mr. Douglas Mackeurtan took a considerable interest in the affairs of the accountancy profession in South Africa. He became a member of the Society's South African Eastern Committee, Natal, on its inception, and was Chairman of the Branch from 1928 to 1933. His fellow members in the profession in Natal also recognised his services and ability by electing him on two occasions President of the Natal Society of Accountants (the statutory body in Natal), on the Council of which he served for twelve years.

The late Mr. Mackeurtan had singular gifts which expressed themselves both in his professional ability and in his artistic taste. He was a considerable and well-informed collector of antique furniture and prints. To his gifts was added much personal charm, and his death is much regretted by a wide circle of friends both in South Africa and in Great Britain.